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CENTRAL INTELLIGENCE AGENCY

OFFICE OF NATIONAL ESTIMATES

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SUBJECT: The Asian Rice Situation

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1. The shortage of export rice which has recently developed in Southeast Asia is probably temporary and does not indicate that the major Asian rice exporters, Burma and Thailand, are out of the woods in regard to their rice trade or that the Asian market provides a steady outlet for US rice surpluses. The Asian rice market is subject to sudden and violent changes because the Asian countries are rice producers as well as importers and their imports have become marginal to their own production. Consequently, a relatively small change in Asian crop yields or planned import programs can cause a major change in the rice export situation and create serious economic and political problems for Burma and Thailand.

2. A year ago Burma and Thailand had accumulated large stocks of surplus rice on hand because of a series of interacting developments, certain of which may imply a longer-range and more permanent change in the Asian rice situation. The major rice importing nations, as well as the minor ones, have had considerable success with their postwar efforts to increase food production.^{1/} Also, rice substitutes, principally wheat which was introduced into Asia during the postwar period of critical food shortage, now account for a large part of the cereal imports by cereal deficit Asian countries.^{2/} The accumulation of Burmese and Thai rice surpluses was increased further by the bumper crops harvested throughout most of Asia in 1953 and 1954, the high proportion of low grade rice in the Burmese and Thai warehouses, and the reluctance of the Burmese and Thai governments to stimulate rice sales by reducing prices to levels

^{1/} For example, by 1953-1954, India's rice production exceeded prewar levels by 21 percent and net rice imports dropped to one-tenth of prewar. Between 1951 and 1954, Ceylon increased rice production by 25 percent. Malaya, Indonesia, and the Philippines expanded their rice cultivation and in good crop years Indonesia and the Philippines achieved virtual self-sufficiency.

^{2/} Rice imports by cereal deficit countries represented only 32 percent of total cereal imports from 1951-1953 as compared with 83 percent in 1944-1950.

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competitive with wheat. Another factor was the large stocks of US export rice overhanging the world market.

3. During the first half of 1956, however, an unexpected increase in the demand for rice enabled both Burma and Thailand to clear out most of their accumulated surplus stocks. By the middle of the year, rather than facing major economic and political problems as a consequence of large stocks of unmarketable surplus rice, both countries were reluctantly turning away cash customers. With the demand for rice up, Burma and Thailand were caught with their stocks down. This rather abrupt shift from a surplus to a shortage of export rice in Burma and Thailand came as a result of several special circumstances -- crop failures among Asian countries, India's stockpiling program, and Burma's shipments of rice to the Bloc under barter agreements.

4. The most significant rice crop failure among Asian countries was Pakistan's. In 1955, Pakistan exported 200,000 tons of rice, but during the first part of 1956 the government was forced to import over 700,000 tons and may have to seek additional amounts before the 1956-1957 crop is harvested to alleviate widespread famine. However, Pakistan expects to be back as an exporter in 1957.

5. Likewise, India's recent increase in rice purchases reflects a special situation. Under the current Five Year Plan, India is planning on building up a one million ton reserve of rice and a one million ton reserve of wheat to control prices and avert famine. Although India's food production increased under the first Five Year Plan and India's imports of cereals decreased,^{1/} India agreed in 1956, to purchase from Burma, at slightly reduced prices, two million tons of rice over a five-year period largely for stockpiling purposes.

6. Finally, Burma had to fulfill the various barter agreements which it had negotiated during its period of surplus with several Bloc countries.^{2/} In the 18 month period ending August 1956, Burma supplied the Bloc 600,000 tons of rice under these agreements. Burma's barter commitments for 1956-1957 are 800,000 tons. Burma's displeasure with Communist China's recent offer to supply 60,000 tons of rice to Pakistan stems from Burma's inability to transact that business herself and from the fact that China's capacity to do so was enhanced by shipments of Burmese rice to China under barter arrangements.

1/ India's imports of cereals:

1951 - 4.7 million tons
1952 - 3.9
1953 - 2.0
1954 - 0.8

2/ Communist China, the USSR, Czechoslovakia, Hungary, East Germany, Poland, and Rumania.

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7. The current shortage of export rice in Asia developed despite that fact that Japan, normally a key importer taking 30-35 percent of total Asian rice imports, has been reducing its rice imports steadily since 1954.^{1/} Japan has been able to reduce its rice imports because of good crops and the continued use of rice substitutes for about two-thirds of its grain import requirements. Japan's planned import program for 1957 calls for only about half the rice imports of 1954.

8. The US, which became in the postwar period the world's third-ranking exporter of rice providing about 10-13 percent of the rice moving in international trade channels, did not enter the Asian rice market as a major supplier until 1956.^{2/} However, the fact of large US rice surpluses overhanging the market tended to depress world prices and caused Burma and Thailand a good deal of concern over US intentions. In an effort to reduce US surplus, rice was included among those agricultural products which may be sold abroad for local currencies under PL 480 agreements. Taking advantage of the current shortage, during 1956 the US negotiated major PL 480 agreements with Pakistan, Indonesia, and India which included allocations of about 700,000 tons of rice. Shipments of this rice in 1956 and 1957, along with some increase in US domestic consumption, will clear out most US rice surplus.

9. In view of their foreign exchange problems and their own import needs, both Burma and Thailand will seek to increase their rice exports to prewar levels.^{3/} Burma will undoubtedly cling to her Bloc barter agreements in the hope they can be adjusted annually to the prevailing supply and demand situation in international cash markets. Even if South Vietnam manages to overcome internal production and transportation problems and accumulate sizeable export surpluses, it will probably encounter difficulty in regaining its prewar status as a major rice exporter. The excess-shortage cycle of export rice can be expected to repeat itself in future years. Over the long run, the tendency is toward more frequent periods of excess if food self-sufficiency programs progress, rice substitutes continue to account for a large part of cereal imports,

1/ Japan's rice imports
 1954 - 1,432 million tons
 1955 - 1,246
 1956 - 1,100 (estimate)

2/ Total US rice exports to Asia in 1,000 long tons

	Korea	Japan	all others
1953	109	232	8
1954		266	8
1955		268	15

3/ 1934-1938 - Average Rice Exports - 1954

		thousand tons	
Burma	3,070		1,451
Thailand	1,388		1,183
Indochina	1,320		358

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and other cereal deficit countries besides India inaugurate and complete stockpile programs.* In any event, the prospects for the next few years are for increased instability in the Asian rice situation. In this situation, serious political friction can be expected with Burma and Thailand if the US seeks to expand permanently its exports of rice in Asia.

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* Pakistan and Indonesia are now studying the possibility of building rice and wheat stockpiles.

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